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BULLETIN NUMBER 2009-07

TO: All Insurers Transacting Life Insurance Business in South Carolina

FROM: Scott H. Richardson, CPCU 
Director

SUBJECT: Regulation 69-57.3, Preneed Life Insurance Minimum Standards for
Determining Reserve Liabilities and Nonforfeiture Values

DATE: June 8, 2009

I. PURPOSE OF THIS BULLETIN

The purpose of this Bulletin is to inform insurers of the adoption of South Carolina Regulation 69-57.3, Preneed Life Insurance Minimum Standards for Determining Reserve Liabilities and Nonforfeiture Values, prescribing minimum standards for determining reserves and nonforfeiture values on preneed insurance policies. This regulation was approved by Joint Resolution of the General Assembly and signed by the Governor (2009 R.20, H.3657) on April 8, 2009. The final regulation was published in the April 2009 edition of the *State Register* and applies to preneed insurance policies and certificates issued on or after January 1, 2009. Attached is a copy of the final regulation.

For purposes of this bulletin, preneed insurance means any life insurance policy or certificate, which has for its purpose the furnishing or performance of funeral services, or the furnishing or delivery of personal property, merchandise, services of any nature in connection with the final disposition of a dead human body, to be furnished or delivered at a time determinable by the death of the person whose body is to be disposed of, but does not mean the furnishing of a cemetery lot, crypt, niche, mausoleum, grave marker or monument.

II. MINIMUM STANDARD

Subject to the transition rules below, for preneed insurance policies, Regulation 69-57.3 prescribes the Ultimate 1980 CSO as the minimum mortality standard for the valuation of reserve liabilities and nonforfeiture values for both female and male insureds. For purposes of this bulletin, the Ultimate 1980 CSO means the Commissioners' 1980 Standard Ordinary Life Valuation Mortality Tables without ten-year selection factors as incorporated into the 1980 amendments to the NAIC Standard Valuation Law approved in December 1983.

III. TRANSITION RULES

For preneed insurance policies issued on or after January 1, 2009, and before January 1, 2012, the 2001 CSO Mortality Table may be used as the minimum standard for reserves and nonforfeiture values for both male and female insureds. If an insurer elects to use the 2001 CSO on such policies, the insurer shall provide an annual written notification to the domiciliary commissioner as a part of the actuarial opinion memorandum submitted in support of the insurer's asset adequacy testing. The notification must include:

- (1) A complete list of all preneed policy forms using the 2001 CSO Mortality Table;
- (2) A certification signed by the appointed actuary stating that the reserve methodology employed by the insurer in determining reserves for such policies, unaggregated with other policies, develops adequate reserves; and
- (3) Supporting documentation and information regarding the adequacy of reserves for such policies.

All preneed policies issued on or after January 1, 2012 must use the Ultimate 1980 CSO table as the minimum reserve and nonforfeiture standard.

IV. QUESTIONS

Any questions or concerns about this Bulletin should be addressed to the attention of:

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Document No. 4035
DEPARTMENT OF INSURANCE
 CHAPTER 69

Statutory Authority: 1976 Code Sections 1-23-110 et seq., 38-3-110, 38-9-180 and 38-63-510 et seq.

69-57.3. Preneed Life Insurance Minimum Standards for Determining Reserve Liabilities and Nonforfeiture Values

Synopsis:

The Preneed Life Insurance Minimum Standards for Determining Reserve Liabilities and Nonforfeiture Values was recently adopted by the NAIC to provide for use of the 1980 Commissioners Standard Ordinary (CSO) Life Valuation Mortality Table for use in determining the minimum standard of valuation of reserves and the minimum standard nonforfeiture values for preneed insurance products. The 2001 CSO Tables promulgated in S.C. Code of Regulations 69-57.1, Recognition of Preferred Mortality Tables for Use in Determining Minimum Reserve Liabilities, do not appropriately reflect the mortality experience of preneed life insurance and may produce inadequate reserves.

Instructions: Add Regulation 69-57.3, Preneed Life Insurance Minimum Standards for Determining Reserve Liabilities and Nonforfeiture Values, as drafted below, to the South Carolina Code of Regulations.

Text:

69-57.3. Preneed Life Insurance Minimum Standards for Determining Reserve Liabilities and Nonforfeiture Values.

Section 1. Authority

Section 2. Scope

Section 3. Purpose

Section 4. Definitions

Section 5. Minimum Valuation Mortality Standards

Section 6. Minimum Valuation Interest Rate Standards

Section 7. Minimum Valuation Method Standards

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Section 9. Effective Date

Section 1. Authority

This regulation is promulgated by the Director of Insurance pursuant to South Carolina Code Sections 38-9-180 and 38-63-510 et seq. as well as Regulation 69-57.

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Section 2. Scope

This rule applies to preneed insurance contracts, as defined in section 4 of this regulation, and to similar policies and certificates.

Section 3. Purpose

The purpose of this regulation is to establish for preneed insurance products minimum mortality standards for reserves and nonforfeiture values, and to require the use of the 1980 Commissioners Standard Ordinary (CSO) Life Valuation Mortality Table for use in determining the minimum standard of valuation of reserves and the minimum standard nonforfeiture values for preneed insurance products.

Section 4. Definitions

A. "2001 CSO Mortality Table" means that mortality table, consisting of separate rates of mortality for males and female lives, developed by the American Academy of Actuaries CSO Task Force from the Valuation Basic Mortality Table developed by the Society of Actuaries Individual Life Insurance Valuation Mortality Task Force, and adopted by the NAIC in December 2002. The 2001 CSO Mortality Table is included in the Proceedings of the NAIC (2nd Quarter 2002). Unless the context indicates otherwise, the "2001 CSO Mortality Table" includes both the ultimate form of that table and the select and ultimate form of that table and includes both the smoker and nonsmoker mortality tables and the composite mortality tables. It also includes both the age-nearest-birthday and age-last-birthday bases of the mortality tables.

B. "Ultimate 1980 CSO" means the Commissioners' 1980 Standard Ordinary Life Valuation Mortality Tables (1980 CSO) without ten-year (10-year) selection factors, incorporated into the 1980 amendments to the NAIC Standard Valuation Law approved in December 1983.

C. "Preneed insurance" means any life insurance policy or certificate, which has for its purpose the furnishing or performance of funeral services, or the furnishing or delivery of personal property, merchandise, services of any nature in connection with the final disposition of a dead human body, to be furnished or delivered at a time determinable by the death of the person whose body is to be disposed of, but does not mean the furnishing of a cemetery lot, crypt, niche, mausoleum, grave marker or monument.

Section 5. Minimum Valuation Mortality Standards

For preneed insurance contracts, as defined in section 4C, and similar policies and contracts, the minimum mortality standard for determining reserve liabilities and nonforfeiture values for both male and female insureds shall be the Ultimate 1980 CSO.

Section 6. Minimum Valuation Interest Rate Standards

A. The interest rates used in determining the minimum standard for valuation of preneed insurance shall be the calendar year statutory valuation interest rates as defined in South Carolina Code Section 38-9-180.

B. The interest rates used in determining the minimum standard for nonforfeiture values for preneed insurance shall be the calendar year statutory nonforfeiture interest rates as defined in South Carolina Code Section 38-63-510 et seq.

Section 7. Minimum Valuation Method Standards

A. The method used in determining the standard for the minimum valuation of reserves of preneed insurance shall be the method defined in South Carolina Code Section 38-9-180.

B. The method used in determining the standard for the minimum nonforfeiture values for preneed insurance shall be the method defined in South Carolina Code Section 38-63-510 et seq.

Section 8. Transition Rules

A. For preneed insurance policies issued on or after the effective date of this regulation and before January 1, 2012, the 2001 CSO may be used as the minimum standard for reserves and minimum standard for nonforfeiture benefits for both male and female insureds.

B. If an insurer elects to use the 2001 CSO as a minimum standard for any policy issued on or after the effective date of this regulation and before January 1, 2012, the insurer shall provide, as a part of the actuarial opinion memorandum submitted in support of the company's asset adequacy testing, an annual written notification to the domiciliary commissioner. The notification shall include:

- (1) A complete list of all preneed policy forms that use the 2001 CSO as a minimum standard;
- (2) A certification signed by the appointed actuary stating that the reserve methodology employed by the company in determining reserves for the preneed policies issued after the effective date and using the 2001 CSO as a minimum standard, develops adequate reserves. (For the purpose of this certification, the preneed insurance policies using the 2001 CSO as a minimum standard cannot be aggregated with any other policies); and
- (3) Supporting information regarding the adequacy of reserves for preneed insurance policies issued after the effective date of this regulation and using the 2001 CSO as a minimum standard for reserves.

C. Preneed insurance policies issued on or after January 1, 2012, must use the Ultimate 1980 CSO in the calculation of minimum nonforfeiture values and minimum reserves.

Section 9. Effective Date

This regulation is applicable to preneed insurance policies and certificates and similar contracts and certificates, as specified in section 2, issued on or after January 1, 2009.

Fiscal Impact Statement:

There will be no increased costs to the state or its political subdivisions.

Statement of Rationale:

The proposed regulation is needed to appropriately reflect the mortality experience of preneed life insurance and produce adequate reserves for preneed life insurance products. The regulation will benefit consumers by increasing necessary reserves to an appropriate level, promoting a responsible competitive environment by ensuring all companies are acting responsibly and creating equitable value for consumers by increasing cash values. The use of the 1980 CSO tables will enhance the availability of preneed life insurance and the establishment of adequate reserves and promote the reliability, solvency and financial stability of insurance companies by increasing the reserve requirement on preneed life insurance policies.